

DEPARTMENT OF STATE

Washington, D.C. 20520

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January 4, 1981

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MEMORANDUM

TO: EA - Ambassador Holdridge

THRU: EA - Mr. O'Donohue

FROM: EA/VLK - L. Desaix Anderson *[Signature]*

SUBJECT: Prospects for Indochina

Kampuchea

Despite resounding victories for ASEAN's strategy at the International Conference and UNGA, the strategy is showing some frayed edges. The perennial Indonesian problem has again been submerged during the Pattaya Foreign Ministers' meeting, but rides constantly just below the surface. While Malaysia's foreign policy under Ghazali Shafie's direction more aggressively supports the tougher line toward Vietnam, the Philippines seems to be entertaining doubts about the wisdom of an ASEAN role in building an armed third force in Kampuchea.

Outside the region, France, Japan and the European Commission, through their assistance packages, have broken the common strictures on isolating Vietnam economically. These breakthroughs for Hanoi are not significant economically, but could mislead Hanoi into believing that the consensus is breaking down, and could lead other Western nations, like Australia, to follow a similar course. Residual doubts about the chances of success of the strategy in the West, Japan and the U.S. appear to be growing as time passes, and this in turn makes Western states particularly uncomfortable over support for the DK credentials in New York.

The difficulties of forming a resistance coalition reflect the profound differences of goals of Son Sann and the Khmer Rouge, and, in the background, between ASEAN and China. It seems unlikely that the differences can be papered over with the proposed "loose coalition." At least for the time being, keeping alive the process of movement toward a more unified resistance

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would appear to preserve ASEAN's interests, but an acrimonious breakdown in the negotiations between the non-communists and Khmer Rouge could doom more unified efforts. A breakdown could lead to recriminations and divisions within ASEAN, between ASEAN and Beijing, and on the part of ASEAN's Western backers. The worse scenario features a breakdown of the coalition talks, disillusionment in ASEAN and among the Khmer with strengthening the non-communist forces, European movement to abstention on the DK credentials issue, additional Western assistance to Vietnam, and a more acrimonious split between ASEAN and China. More likely, however, the coalition process will continue inconclusively; the ASEAN-Three will decide to support the non-communists despite failure to create a coalition; and although the UN situation could weaken, ASEAN would remain in control through the next UNGA.

Our own response, however limited to the ASEAN-Three calls for US support for the resistance may prove to have been a key ingredient on keeping the consensus within ASEAN together, and in permitting us to look beyond the success or failure of the coalition talks. We made the right decision.

To sustain the consensus and our policy objectives, our own efforts in the coming months must concentrate on the following:

-- Above all, keep ASEAN out front.

-- Continue to work to sustain supporting ASEAN-- key areas of concern are economic assistance to Vietnam and a premature movement away from support for ASEAN's position on DK credentials. Missionary work is necessary with ANZUS (consultations being planned for Feb-March), and with the Europeans, Canada and Japan. ASEAN must stay in the lead on this, but we must work steadily behind them.

-- Continue to work on China to bring the Khmer Rouge into an acceptable relationship with the non-communists.

-- Maintain a firm position on DK credentials, but still retain our options. Support for DK credentials is of utmost importance to Beijing, and can be skillfully utilized as leverage with China, but we must be careful that in the process we do not

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squander this asset which is even more important to Hanoi. Despite some continuing domestic opposition to our position on DK credentials, we should continue to take a firm public stance in support of ASEAN's position on that issue, while preserving our options should ASEAN's own policy change.

-- Consider ways in which our own political support might be heightened should a coalition be formed. Possibilities range from turning the Kampuchean Embassy in Washington over to the reconstituted DK (under Sihanouk and Son Sann) to conceivably, at a later stage, according the new DK diplomatic recognition.

Vietnam

Vietnam's difficulties are mounting. The strategy is working even though we have not yet achieved the desired end results. Vietnamese Foreign Minister Nguyen Co Thach now indicates discomfort with the Soviet role as well as acknowledging Vietnam's deepening economic morass. Hanoi is \$20 million in arrears on debts, principally to Japanese banks and trading companies, and has been unable to secure funds from the IMF or OPEC to meet current interest payments. Even Japanese and Australian doubters who earlier denigrated the importance of Vietnam's economic problems, now acknowledge the depth of Hanoi's woes. Serious debate over economic policy is apparently a major factor in the delaying of the Vietnamese Party Congress. Lately, however, we are faced with the curious logic which asserts that despite the evidence that the strategy is working, we should change the strategy and show sympathy to Hanoi to demonstrate that Vietnam has an alternative to over-dependence on the Soviet Union.

At the same time, decisions by Japan, France and the European Commission to provide some assistance has probably encouraged Hanoi to persist in its struggle in the hope that the consensus is unravelling. The visit by the Vietnam Veterans of America also probably evoked some temporary belief in Hanoi that Vietnam had again found an American chord on which to play. The U.S. public reaction should have disabused Hanoi of this conclusion, but probably has not.

Whatever Hanoi's perceptions, the fundamental equation has not been altered by recent developments. Vietnam's problems are profound and the only conceivable way in which Hanoi could hope

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to extricate itself within a few years from its economic and concurrent political malaise is through a negotiated settlement of the Kampuchean problem which permitted large-scale access to Western markets, technical and economic assistance.

The Polish crisis also should heighten concerns in Hanoi about its relationship with the Soviets. The Vietnamese cannot count on increased economic assistance from the Soviets or Eastern Europe under these circumstances, and assistance could even be reduced. At the same time, Hanoi could well fear that the economic and political problems which have led to the disintegration of Communist Party rule in Poland are similar to those in Vietnam.

While there are still no signals of any readiness on Hanoi's part to negotiate the basic issues of its occupation of Kampuchea, Hanoi has slowly edged toward defining an apparatus for negotiating a settlement. In effect, parallel negotiating mechanisms are incorporated in both ASEAN's and Hanoi's positions. But, while Hanoi has designed a framework for negotiations (regional conference plus Security Council members) Vietnam has not yet chosen to pursue the substance or offer the concessions which could lead to a solution. The Fifth Party Congress in Hanoi in March could be a time for major decisions or reconsideration of Hanoi's Kampuchean and other policies.

While awaiting a move on Hanoi's part, ASEAN's and our current posture is correct, and we should work to bolster it. In the coming period, we should:

- Work closely with ASEAN to maintain the political and economic isolation of Vietnam.

- While standing firm, heighten slightly the profile of the benefits Hanoi would receive should it negotiate a settlement in Kampuchea. This could entice Hanoi and at the same time outflank Australians and Japanese and others who believe that sympathy not pressure is most effective means of dealing with Hanoi.

- By the Spring or mid-year, we might consider again a direct approach to the Vietnamese to probe for flexibility.

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Laos

No major changes are anticipated in Laos in the period ahead. Vietnamese influence will continue to prevail; the Soviets will continue to increase their military and advisory role in Laos. Thailand's recent bilateral efforts appear to have improved at least the tone in their relations. Against this background, U.S. Congressional visits, our limited disaster aid to the hospital (the second half of which should be completed within a few weeks), proposals for ordnance disposal/crash site search, and the proposed Defense-led mission all set the stage for testing whether there is any flexibility in the LPDR in dealing with us on the key issues in which we are interested.

-- We should maintain our current stance, nurture any limited success, such as agreement to explore crash sites or willingness to receive the Defense-led mission, after which we could consider further constructive steps on our part. Should no response be forthcoming, we should consider some negative signals, such as selectively working actively against UN assistance, and ADP and IBRD Bank loans to Laos.

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